

PERFORMANCE AND BUDGET INTEGRATION

A major achievement during FY 2005 was the elimination by the Office of Inspector General of the Management Challenge affecting budget and performance integration. This challenge read: "SBA needs to improve its managing for results processes and performance data."

The OIG concluded that the Agency's progress in this area was such that the existence of the challenge was no longer warranted. This action and the maintenance of the Green status in this PMA initiative reflect the achievements of the SBA in the area of performance and budget integration. Some of the main processes and results are described below.

The Small Business Administration has taken several important steps to integrate performance information with financial information. These steps have been aimed at enabling a better understanding and assessment of the efficiency and cost effectiveness of Agency programs and operations. For the past several years, the Agency has been implementing a system of activity-based costing (ABC). The ABC model is based on a survey that is conducted periodically. All employees take this survey, on which they identify the proportion of their time spent on specific activities. The model is used by the SBA to identify the full costs of its programs and activities. Using the program activity cost information generated by the Agency's ABC system, the SBA has been able to determine the costs of its outputs, as well as the resources devoted to each Long-Term Objective and Strategic Goal of its strategic plan.

Additionally, for a second year in a row, SBA was able to better ensure the accuracy of this cost-related performance data by reconciling that information with its financial statements. Maintaining this important reconciliation means that the Agency continues to strengthen the integration of its financial and performance information.

This information has been used by program offices to focus their attention on areas that could be targeted for improvements in program efficiency. One example relates to the efficiency of the SBA's flagship lending program. The ABC model in FY 2003 showed that the cost of liquidation for 7(a) loans was \$32.10 million. The Agency decided it could significantly reduce this cost by centralizing the operation, which resulted in FY 2005 7(a) loan total liquidation costs of \$7.2 million, a





savings of \$24.9 million. On a per loan basis, at the rate of \$1,191 per loan in FY 2005, compared to \$2,214 per loan in FY 2003, this savings of \$1,023 per loan represented a 46% reduction in the cost of liquidating one 7(a) loan. Additionally, this centralization has freed district employees to focus on the delivery of targeted programs and services, rather than liquidation functions.

Finally, during FY 2005 SBA continued focusing on improving the quality of its performance data:

- The technical and management assistance programs under ED implemented a standardized client definition.
- Financial assistance programs are reporting net numbers of loans
- The number of unique small businesses receiving financial assistance is being reported. Previously the number of loans approved was used as a proxy.

As a result of the SBA's accomplishments in integrating its budget processes and its performance, in FY 2005 the Agency maintained the rating of Green that it initially received in FY 2004 on both Progress and Status on this President's Management Agenda item. This rating of Green was achieved one-and-a-half years ahead of the Agency's plan.